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ANNUAL REPORT

December 31, 1948

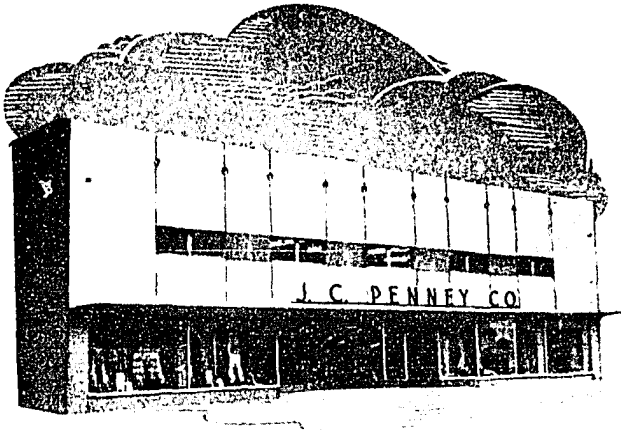
J. C. PENNEY COMPANY
(A DELAWARE CORPORATION)

OPERATING 1601 RETAIL STORES

J. C. PENNEY COMPANY
A DELAWARE CORPORATION

1948

ANNUAL
REPORT



TWO YEAR COMPARISON

	<u>1948</u>	<u>1947</u>
Number of Stores	1601	1603
Sales	\$885,195,136.87	\$775,872,590.75
Average Sales per Store	552,901.40	484,012.85
Net Income	47,753,929.53	35,304,230.83
Earnings per Share	5.80	4.29
Taxes—Federal, State and Local .. .	36,839,618.19	28,212,465.69
Taxes per Share	4.48	3.43
Dividends Paid	20,579,880.00	20,579,880.00
Dividends Paid per Share.	2.50	2.50
Earnings—reinvested in business	27,174,049.53	14,724,350.83
Inventories	134,883,814.30	123,300,115.26
Net Worth (Capital and Surplus) .	157,698,852.51	130,524,802.98
Number of Stockholders	28,825	27,873

TO THE STOCKHOLDERS OF J. C. PENNEY COMPANY

March 11, 1949

This report contains the financial statements of the Company for the year 1948 and those of its wholly owned subsidiaries, together with the independent auditor's report thereon of Peat, Marwick, Mitchell & Co.

SALES

Company sales for 1948 were \$885,195,136.87. This represented a gain of \$109,322,546.12 over the sales of \$775,872,590.75 in 1947, which had been the highest in the Company's history. The percentage of sales gain in 1948 was 14.09% over 1947. At the year end the Company was operating 1601 stores as compared with 1603 the year before.

FINANCIAL POSITION AND INVENTORIES

Cash and Short-Term Government Securities, as of December 31st, totalled \$92,751,364.64. The comparable figure at the end of 1947 was \$67,665,339.78. The merchandise inventory was \$131,883,814.30, or \$11,583,699.04 more than the figure of \$123,300,115.26 at the end of the prior year. This inventory position was considered most satisfactory, especially in view of the increase of over \$100,000,000.00 in sales volume during 1948. There were no outstanding loans on December 31st.

PROFITS, DIVIDENDS AND TAXES

Net profits for the year were \$47,753,929.53. This was equal to \$5.80 per share. In 1947 the earnings were \$35,304,230.83, or \$4.29 per share. The increase in dollar profits in 1948 over 1947 was due, in large part, to two reasons. As explained in last year's report, the results in the first half of 1947 were severely affected because "very substantial markdowns were taken by the Company in order to eliminate war-time merchandise and to correct unbalanced stocks brought about by war-time conditions." This condition did not obtain in 1948. The significant increase in the 1948 volume also contributed favorably to the year's results, particularly in view of general increases in expense and wage costs, which were common to most businesses during that year.

Federal and other taxes for the year amounted to \$36,839,618.19. This was equivalent to \$4.48 per share. This figure does not, of course, reflect other taxes paid by our suppliers, landlords, and all the others whose tax load has to be included in the cost of merchandise.

It is interesting and particularly significant to note that in each of the last several years this Company has paid a larger amount in taxes than in dividends to the stockholders. Taxes are no longer incidental to our American way of life; direct and indirect, they impose a heavier and heavier burden on our entire economy.

The Company added to its working capital or reinvested in the business out of 1948 earnings and after the payment of dividends \$27,174,049.53, which is equal to \$3.30 per share. It was felt that this action was in the best interests of our customers, of the workers in the Company and of Company stockholders. Since 1941 the sales volume of the Company has more than doubled. During that period the Company has not resorted to any new financing, but has been able to carry out this expansion from earnings. There is certainly ample room for the continued growth of the Penney business. In our judgment, one of the important factors in such growth, and in the continued successful operation, is the sound financial structure, sufficient to meet changing conditions and consisting only of common stock without the additional fixed charges involved in other forms of capital.

STORES

The number of stores in operation at the end of 1948 was 1601, two less than a year ago, and actually four less than there were in 1941. As the sales volume indicates, this does not mean that the Company has stopped expansion or that it is standing still. During the past two years approximately three hundred stores have been enlarged, or renovated, or re-located, or re-fixtured. Our efforts have been devoted to having better stores rather than to reaching out for additional stores in a market that has not been favorable to making sound leases or large capital expenditures. During 1949 a small number of new stores will open and we shall continue our program of improvement, but still on a selective basis. The results of the program to date have been most satisfactory and apparently the improved shopping facilities are appreciated by Penney customers.

MERCHANDISE

Merchandise in our lines — primarily wearing apparel, shoes, piece goods, and home furnishings — was generally in good supply in 1948. While there were shortages in certain wanted items, the year was more nearly normal in the quantity and quality of available merchandise than in any year since the beginning of the war. There was a definite improvement in the values offered our customers. The tendency on the part of shoppers to place an added emphasis on getting more for their money, undoubtedly, had a favorable effect on our sales, because this business has been built on the basis of "packing the customer's dollar full of value." Emphasis on value is particularly important because our Company is engaged in a cash business, distributing necessities to millions of American families.

PERSONNEL

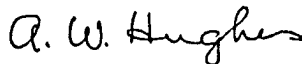
Major emphasis in our Company has always been on people and merchandise and no report to stockholders would be complete without reference to associates and co-workers who are responsible for the results obtained. Nowhere are people more important, in a retail business, than at the point of sale and we are particularly proud of the kind and type of salespeople in our stores.

During the past year a considerable number of our younger buyers have been systematically sent into stores as part of their training. In every report made by these men, this idea has recurred: "I have always been proud of my Penney Company association. Now I am even more so because of the grand group of people I found in every store I visited."

The Company has been built from the very beginning through sharing the results of production fairly and generously with those who produce. The strongest assurance you have of the continued growth and success of this business lies in its emphasis on the spirit and loyalty of Penney associates, as well as on Penney values in merchandise. It is the purpose of your management to continue to do everything possible to maintain and improve these two basic factors in order to serve better both the millions of Penney customers throughout the United States and our thousands of stockholders.



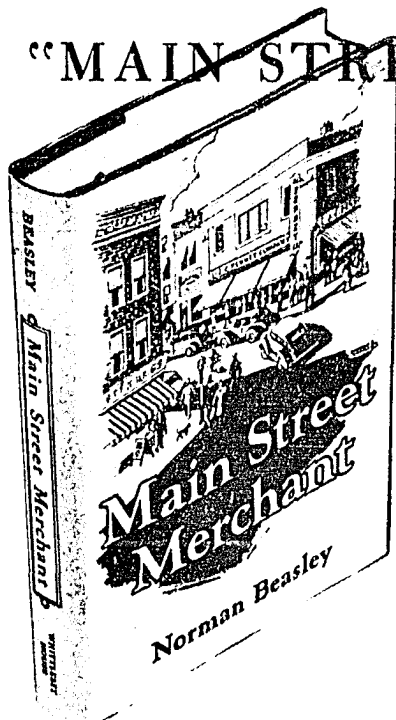
Chairman of the Board



President

The Annual Meeting of Stockholders will be held on April 20th, 1949. A proxy statement, with a request for proxies, will be mailed to stockholders on or about March 25. It will be appreciated if you give your prompt attention to the Proxy Statement and Proxy when received.

"MAIN STREET MERCHANT"...



In November, 1948, Whittlesey Company, written by Norman Beasley, he pleased in search of material, to see records he wanted to study. In other

As stockholders you will be interested in innumerable book reviews and begin. In addition, we have received a constant stream of customers and associates. Without exception, we share the pride we feel in them, we are

Customers Say: -

Brings out the reasons why the store we have as an asset to the town and the consumer . . . practices set forth in "MAIN STREET MERCHANT" are those which have made the United States what it is today . . . It is a great book that tells a great story well . . . Shows how mass distribution on service to the customer, has revolutionized

Associates Say: -

A challenge to all of us who are trying to continue Penney traditions . . . Renews my faith in this great Company which I have served since 1925 . . . A tribute to the sturdy integrity which is a protection for every associate . . . A great book about a great man and Company . . . Worth its weight in gold to us . . . There just aren't words to express the enjoyment and inspiration it gave me . . . Resented every moment that took me away from its fascinating pages.

Landlords Say: -

Having been one of your small town landlords for twenty years what I have read in "MAIN STREET MERCHANT" brings out the ideals that the J. C. Penney Company such a fine tenet of the "live and let live" character of your company. A text book on good and honorable business practices lights the importance of integrity, hard

The Press Says: -

Another way of saying that making what is possible to others is the surest way of making it for yourself . . . An inspiration to young men and women . . . Might well be a school text book . . . A book that only in the United States is there for a young man to fight his way to the top for these times which should be must

The Story of the J. C. Penney Company

House published MAIN STREET MERCHANT, a history of the J. C. Penney Company. In its preparation the author was given a completely free hand — to go where he wanted to see, to talk with whom he wanted to talk, to study whatever records he wanted to write the Penney story exactly as he found it.

It is noted in the fact that since publication MAIN STREET MERCHANT has been praised in glowing comment in the editorial columns of newspapers the country over. The first stream of unsolicited letters from educators, bankers, landlords, suppliers, editors, and others, these letters have been gratifying and stimulating. In order that you may see the following are quoted below four or five of the most significant statements made by each group.

Bankers Say:

Here is a real book that I believe that the MAIN STREET MERCHANT" states the strong reason for its success because it tells a story of distribution, based on the principle of centralized retailing.

Any stockholder who reads this book will be pleased that he is a partner in a business that justly earns its profits by the savings it brings its customers . . . Should be an inspiration to every young man . . . A book every one in business should read . . . I think it contains the formula for success . . . The kind of good American history we can be proud of . . . A great American story

Suppliers Say:

Landlords for some time have made the MAIN STREET MERCHANT a part of their business . . . Emphasizes the importance of our operation . . . business . . . High-class work and thrift.

Through its vivid pages I relived my twenty-five years of service to your Company...All Americans can profitably read this record of integrity...Another chapter in the fascinating story of American business...Have been making goods for J. C. Penney since 1929 which bears witness to cooperative principles stressed in the book... Pages will be well worn by time we have all read it.

Educators Say:

That you do profitably is profitable for men and women . . . A forceful reminder of such opportunity to the top . . . A tract reading for all.

I expect to assign the book as required reading in my retailing class next term . . . An excellent contribution to marketing literature . . . A formula for right living which all our schools should teach: respect yourself, respect others and work hard and continuously at some worthwhile thing . . . Exciting record of a man who knew where he wanted to go and had the stamina to get there.

J. C. Penney Company
(A Delaware Corporation)
BALANCE SHEET
As of December 31, 1948
ASSETS

CURRENT ASSETS:

Cash in banks and on hand	\$ 67,758,727.94	
U. S. Government securities—at cost, plus accrued interest (approximate market price)	24,992,636.70	
Accounts receivable—miscellaneous.	1,689,041.50	
Merchandise (Note)	134,883,814.30	
Total Current Assets	229,324,220.44	

Investments in and Advances to Subsidiary Companies
(including undistributed surplus)—at amounts as shown by subsidiaries' balance sheets:

Advances	\$ 5,315,000.00	
Capital stock and surplus	2,795,821.71	8,110,821.71

Fixed Assets, at not in excess of cost, less provision for depreciation:

Land	1,319,823.71	
Buildings	\$2,410,624.34	
Less Reserve for depreciation	665,189.65	1,745,434.69
		3,065,258.40
Furniture and fixtures, less provision for depreciation	19,115,796.83	
Improvements to leaseholds, less amortization	3,153,389.55	25,334,444.78

Deferred Charges — Leasehold Advances, Unexpired Insurance Premiums, etc.	1,966,867.27	
	<u>\$264,736,354.20</u>	

Note: Inventories are stated at the lower of cost or market determined as follows:

Merchandise in stores—lower of cost or market determined by the retail method. Stocks in warehouses and with manufacturers, including raw materials shipped to manufacturers—cost determined by the first-in first-out method and market on the basis of replacement cost.

J. C. Penney Company

(A Delaware Corporation)

BALANCE SHEET

As of December 31, 1948

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 66,541,565.37
Dividend payable January 3, 1949	8,231,952.00
Provision for Federal income taxes	29,406,524.68
Total Current Liabilities	<u>104,180,042.05</u>

Reserve for Fire Losses, Employees' Death Benefits, Etc. 2,857,459.64

Common Stock, no par value:

Authorized, 9,000,000 shares.

Outstanding, 8,231,952 shares..... 34,122,766.67

Surplus (Earned):

J. C. Penney Company..... \$120,830,264.13

Undistributed surplus of subsidiaries..... 2,745,821.71 123,576,085.84

\$264,736,354.20

ACCOUNTANTS' REPORT

To the Board of Directors,
J. C. Penney Company,
New York, N. Y.

We have examined the balance sheet of the J. C. Penney Company as of December 31, 1948 and the related statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and surplus present fairly the financial position of the J. C. Penney Company at December 31, 1948 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
March 11, 1949.

J. C. Penney Company

(A Delaware Corporation)

STATEMENT OF PROFIT AND LOSS

For the Year ended December 31, 1948

(Including profits of subsidiaries)

Sales		\$885,195,136.87
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	\$793,026,043.94	
Maintenance and Repairs	2,136,818.58	
Depreciation and Amortization	2,993,327.01	
Taxes, other than Income Taxes	6,289,618.19	
Company Contributions to Retirement Plans . . .	4,550,467.24	808,996,274.96
		<u>76,198,861.91</u>
Discount on Purchases and Miscellaneous Income, less Interest Paid and Miscellaneous Charges		1,876,569.76
Profit before Provision for Income Taxes		<u>78,075,431.67</u>
Provision for Income Taxes:		
Federal income taxes	29,400,000.00	
Other income taxes	1,150,000.00	30,550,000.00
		<u>47,525,431.67</u>
Add 1948 Profits of Subsidiaries		228,497.86
Transferred to Surplus		<u>\$ 47,753,929.53</u>

Note:

Common stock outstanding at end of year . . . Shares 8,231,952

Earnings per share \$5.80

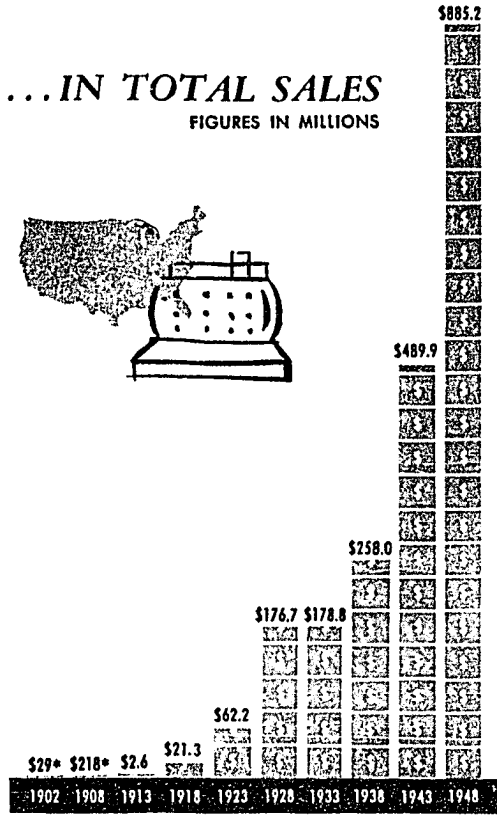
STATEMENT OF EARNED SURPLUS

Surplus at December 31, 1947	\$ 96,402,036.31
Net Income for 1948	47,753,929.53
	<u>144,155,965.84</u>
Dividends	20,579,880.00
Surplus at December 31, 1948	<u>\$123,576,085.84</u>

47 Years of Steady Growth

...IN TOTAL SALES

FIGURES IN MILLIONS

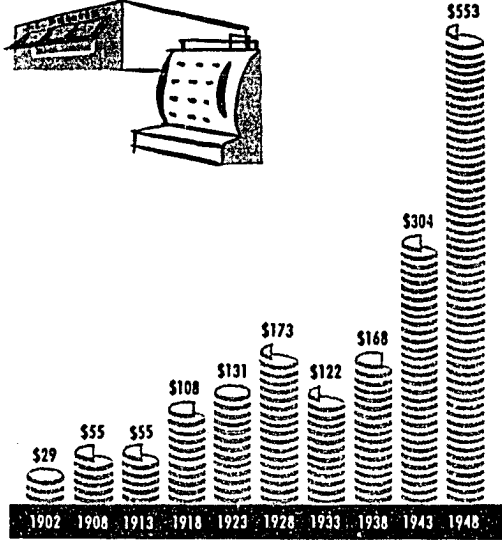


*THOUSAND

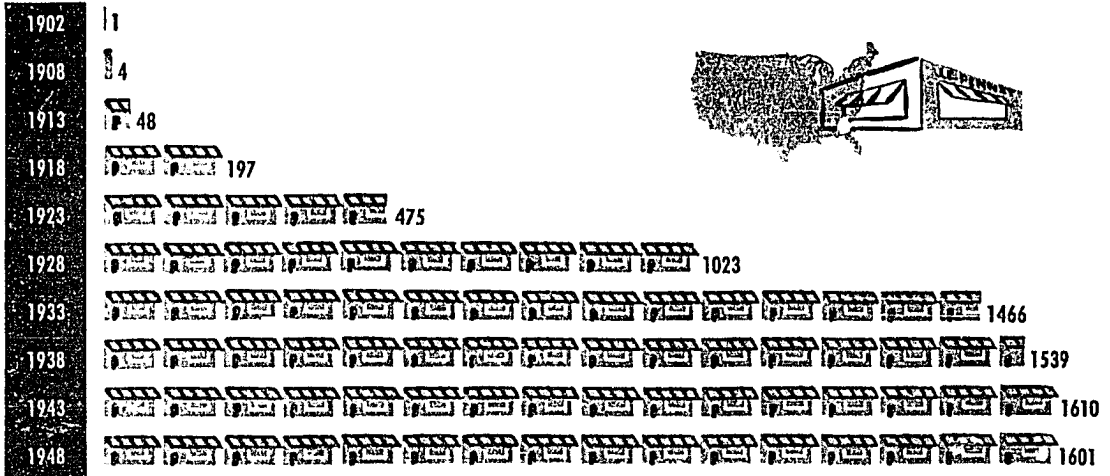
...IN AVERAGE SALES

PER STORE

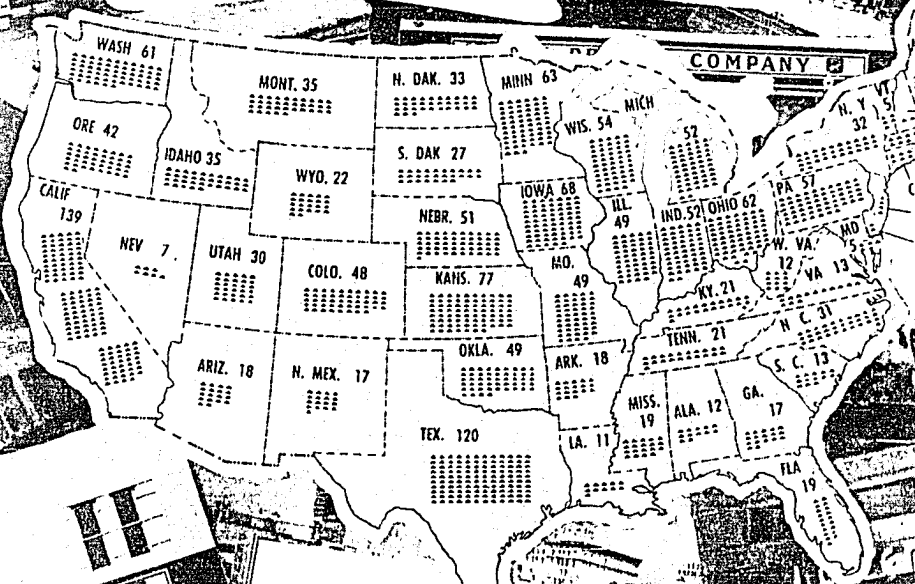
FIGURES IN THOUSANDS



...IN NUMBER OF STORES



J. C. PENNEY STORES BLANKET THE NATION!



Key

▲ = 1 PENNEY STORE

J. C. PENNEY COMPANY

A DELAWARE CORPORATION

OFFICERS

J. C. PENNEY

Honorary Chairman of the Board

E. C. SAMS

Chairman of the Board

A. W. HUGHES

President

J. F. BROWN

3rd Vice-President

F. W. BINZEN

Executive Vice-President

A. J. RASKOPF

Secretary

G. E. MACK

2nd Vice-President and Treasurer

R. C. WEIDERMAN

Comptroller

DIRECTORS

J. C. PENNEY, *Honorary Chairman*

E. C. SAMS, *Chairman*

J. I. H. HERBERT

F. W. BINZEN

L. W. HYER

F. A. BANTZ

E. A. ROSS

J. F. BROWN

A. W. HUGHES

G. E. MACK

H. H. SCHWAMB